W. T. Grant Company
Annual Report
1974

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CORPORATE IDENTITY—Based upon volume of sales, W. T. Grant Company is one of the major retail trade corporations in the United States. At January 30, 1975, the Company operated 1,152 stores, coast-to-coast, under the name "Grants" and "Grant City". Stores range in size from 20,000 to 180,000 square feet and feature broad assortments of every-day family merchandise, including apparel, domestic needs for the home, and small wares. Larger stores, under the "Grant City" name, feature additional lines, such as: major appliances, automotive accessories, garden supplies, sporting goods, and home improvement.

NOTICE TO ALL STOCKHOLDERS—The date of the Annual Meeting of Stockholders of the Company has been changed from the last Tuesday in April of each year to the third Wednesday in May of each year, by an amendment of the By-Laws of the Company approved by a majority of the Board of Directors on February 25, 1975.

NOTICE OF ANNUAL MEETING—The Annual Meeting of Stockholders of W. T. Grant Company will be held in the East Ballroom, Commodore Hotel, 42nd Street and Park Avenue, New York, N.Y., on Wednesday, May 21, 1975 at ten o'clock in the forenoon. All stockholders are cordially invited to attend.

NOTICE OF FORM 10-K AVAILABILITY—A copy of the Company's Form 10-K, Annual Report to the Securities and Exchange Commission, may be obtained, without charge, by writing: Robert J. Kelly, Vice President, General Counsel and Secretary, W. T. Grant Company, 1515 Broadway, Times Square, New York, N.Y. 10036.

W.T. GRANT COMPANY / 1515 BROADWAY
NEW YORK, N.Y. 10036

To Our Stockholders:

The Board of Directors designated James G. Kendrick as Chairman of the Board and President, on August 4, 1974 to assume management leadership of the Company as of September 3rd. John E. Sundman had been elected Financial Vice President on June 25, 1974. The Board charged them with responsibility for developing the operational and financial programs necessary to assure the viability of the Company. Since that time, prompt action has been initiated, with new management in place in finance, merchandising, sales and marketing, inventory control and store management.

A growing spirit of enthusiasm and confidence now characterizes the entire W. T. Grant organization.

For the fiscal year ended January 30, 1975, the Company recorded sales of $1,761,952,000 and incurred a net loss of $177,340,000. These results reflect both the basic problems which confronted the Company in 1974 and the effects of necessary corrective action.

The financial results for 1974 and the Company's financial position at year-end are thoroughly presented in the Financial Review Section and Financial Statements in this Annual Report. Stockholders are urged to review this information carefully, in order to have a full understanding of the Company's financial condition.

This letter addresses itself to identifying both the near and long-term programs which have been undertaken by management to overcome the three most serious problems facing the Company:

- A serious merchandise imbalance.
- The severe burden posed by the accelerated store expansion program.
- The excessive build-up of credit receivables, financed at high interest rates and administered through an exceedingly expensive credit program.

MERCHANDISING—A more satisfactory balance between every-day staple lines of merchandise and big-ticket items has been developed, emphasizing the basic needs family shoppers buy every week. Most wanted items, including a substantial infusion of brand name lines, are being stocked in depth, at highly competitive prices. Fringe items and lines are being eliminated. The number of stockkeeping units per individual department has been reduced by 20% to 40%. More efficient systems for ordering and reordering merchandise, based on rate of sale, have been developed and instituted.

A successful fashion apparel replenishment program for Grant City stores has been expanded from an initial test group to most Grant City stores. The cornerstone of this program is the rapid capture of sales trend information through data processing equipment and quick action based upon analysis of this data.

After a substantial reduction in personnel, the Buying Division has been reorganized and streamlined under new leadership. The Quality Control organization and merchandise testing capability have been expanded.

SALES AND MARKETING—The Sales Department, which had been an adjunct to the Merchandising Division in the past, has been made a free-standing service division. A number of steps have been taken to build sales, including the formulation of a new sales calendar. Sales circulars and print media, the major vehicles for disseminating sales information to Grant customers, are being modernized and improved. In addition, an extensive T.V. advertising campaign, highlighting key promotional items in Company-wide sales events, has been put into operation for 1975 in 33 major and 7 smaller markets, representing more than 75% of the Company's annual sales volume. Systems have been developed to directly measure the productivity of sales promotion events on an item-by-item basis.

Point-of-sale impact has been enhanced with the development of promotional merchandising aisles in all Grant City stores. Further promotional impact is anticipated through the merchandising and promotion of special purchases. In the past, rigid systems prevented taking advantage of such special buys. Such purchases are now made and distributed to the Company's larger stores.

STORE OPERATIONS—The number of Regional Offices has been reduced from six to four, while six additional Districts have been created. We believe we now have greatly improved supervision, because District Managers have fewer stores to supervise and are also relieved of the distraction of new store openings and credit operations. The Store Management Training Program has been cut back by more than 300 persons, reflecting reduced personnel needs over the next several years.

During the year ended January 30, 1975, 81 stores, (2,073,000 gross square feet) were closed while 44 new stores (3,124,000 gross square feet) were opened. Store space in operation on that same date was 54,770,000 gross square feet, compared with 53,719,000 gross square feet on January 31, 1974. In addition to approximately 60 stores scheduled for closing during 1975 at termination of their leases, the Company has completed the closing of 64 additional stores. The majority of the latter stores were opened in the last few years, and had consistent records of unprofitability. This store closing program will significantly reduce the burden which investment in inventory, payroll and occupancy has placed upon the Company without hope of profitable return in the near future. Continuing study of unprofitable stores is being made. At January 30, 1975, the Company had 1,152 stores in operation, compared with 1,189 at January 31, 1974. As of April 30, 1975 there will be approximately 1,075 stores in operation.

Store expansion has been sharply curtailed. 77 new stores were opened in 1973. In 1974, the number dropped to 44 stores. In 1975, no more than a dozen are expected to be opened.

CREDIT—Steps were taken in early September to bring credit receivables under control, and to develop a viable credit program for our customers.

The number of Grant credit customers was reduced substantially by the issue of new Grant credit cards. Management believes that this step, while having an adverse effect on sales will, in time, improve company performance.

Credit-granting authority and account supervision are being centralized in ten strategically-placed locations. Furthermore, outside agencies have been employed to collect seriously delinquent accounts.

New credit services have been offered our customers, including:

- Third-party installment account financing. This is a big-ticket selling tool which relieves the Company of the burden of financing credit receivables.

- BankAmericard and Master Charge bank credit cards. There are more than 61 million BankAmericard and Master Charge cards outstanding. Management believes that bank cards will prove popular with our customers and help achieve additional sales at a cost below that of in-house credit.

COST CUTTING—In the relatively short period of time in which new management has been in place, aggressive and extensive cost reduction measures have been instituted. When fully implemented during the course of 1975, payroll and expense reductions in all divisions of the Company will be achieved at an aggregate annual rate of more than $60 million.

The largest portion of such savings will result from reduced payroll and operational expense in the stores and home office, with the elimination of individual credit department operations in each store affording the greatest economy. Additional savings will have taken place through closing of non-profitable stores and staff reductions in many home office divisions. Further savings are being realized during the current year through reduction of executive compensation and the deferral of regular salary increases in all levels of the organization.

Capital expenditures, which amounted to $16 million in 1974, will be significantly lower in 1975.

FINANCIAL ARRANGEMENT—Management enjoys an excellent working relationship with its banks. The Company's prime lending banks have agreed to amend and extend the Company's loan agreement, under which approximately $541 million will continue outstanding. Initially, the Company dealt with 143 banks, a number which is expected to be reduced to about 30 by June 2, 1975. The anticipated smaller size of the bank group, following repayment of approximately $59 million, will be more flexible and efficient.

W. T. Grant Company continues to experience excellent cooperation from the vast majority of its suppliers, and payments to vendors are being made according to schedules consistent with the retail industry in general. To provide still further evidence of its goodwill, the Company has developed a security lien agreement for its suppliers.

ECONOMIC OUTLOOK—The Company is confident that the programs which it has implemented are correcting its problems and that its recovery will be achieved.

While management anticipates a loss for both the first and second quarters of 1975, it believes that operations will become profitable in the second half of this fiscal year. Net earnings realized in the third and fourth quarters, however, will not be sufficient to offset the first half loss.

James G. Kendrick

Chairman of the Board
and President

April 18, 1975

FINANCIAL REVIEW

summary of operations

($ in thousands except per share data)

	52 weeks ended January 30, 1975	Year ended January 31, 1974*	1973*	1972*	1971*
Sales	$1,761,952	$1,849,802	$1,644,747	$1,374,812	$1,254,131
Income from concessions	4,238	3,971	3,753	3,439	4,985
	1,766,190	1,853,773	1,648,500	1,378,251	1,259,116
Cost of merchandise sold, buying and occupancy costs	1,303,267	1,282,945	1,125,261	931,238	843,192
	462,923	570,828	523,239	447,013	415,924
Selling, general and administrative expenses	540,953	540,230	476,280	411,225	363,853
Store closing expenses	24,000				
Net credit expense (income)	161,467	5,972	(13,801)	(21,633)	(13,085)
Other interest expense	37,771	18,082	6,165	5,272	1,526
	764,191	564,284	468,644	394,864	352,294
	(301,268)	6,544	54,595	52,149	63,630
Other income:					
Interest earned	1,390	1,036	602	933	781
Gain on retirement of long-term debt	1,986	1,960	316	337	433
	3,376	2,996	918	1,270	1,214
Earnings (loss) before income taxes and equity in net earnings of unconsolidated subsidiaries	(297,892)	9,540	55,513	53,419	64,844
Provision (credit) for Federal, state and local income taxes:					
Current	(19,439)	(6,021)	11,256	13,579	22,866
Deferred	(98,027)	9,310	14,408	12,166	9,738
	(117,466)	3,289	25,664	25,745	32,604
	(180,426)	6,251	29,849	27,674	32,240
Equity in net earnings of unconsolidated subsidiaries	3,086	4,651	5,116	3,951	4,175
Net earnings (loss)	(177,340)	10,902	34,965	31,625	36,415
Dividends on 3¾% Cumulative Preferred Stock	280	293	335	346	395
Net earnings (loss) applicable to Common Stock	($177,620)	$ 10,609	$ 34,630	$ 31,279	$ 36,020
Average number of common shares outstanding	13,940,000	13,886,000	13,882,000	13,875,000	13,638,000
Net earnings (loss) per common share	($12.74)	$ .76	$2.49	$2.25	$2.64

*The above summary of operations and all statistical, operating and quarterly data included elsewhere in this report have been restated for the retroactively applied change in the method of accounting for finance charge income. See Note 1 to the financial statements for further details.

other financial data and operating statistics

($ in thousands except per share data)

	52 weeks ended January 30, 1975	1974	Year ended January 31, 1973	1972	1971
Cash and securities	$ 79,642	$ 45,951	$ 30,943	$ 49,851	$ 34,009
Customers' installment accounts, net	399,968	521,319	468,582	408,301	358,428
Merchandise inventories	407,357	450,637	399,533	298,676	260,492
Properties, fixtures and improvements, net	101,932	100,984	91,420	77,173	61,832
Short-term debt	600,000	453,097	390,034	237,741	246,420
Long-term debt (including current portion)	217,336	220,336	126,672	128,432	32,301
Earnings retained for use in the business	37,674	219,471	229,691	215,867	205,381
Total capital	113,837	294,748	302,876	297,104	276,982
Working capital	174,875	383,631	315,346	327,011	235,128
Current ratio	1.2	1.6	1.5	1.7	1.5
Credit sales as percent of sales	22.9%	24.4%	24.7%	24.9%	24.3%
Employee compensation and benefits	$424,019	$434,368	$397,134	$336,312	$295,882
Cents per sales dollar	24.1¢	23.5¢	24.1¢	24.5¢	23.6¢
Number of employees (approximate)	69,000	80,000	80,000	71,000	74,000
Capital expenditures	$ 15,955	$ 23,537	$ 26,983	$ 26,476	$ 15,995
Dividends—Common Stock	4,177	20,829	20,806	20,793	20,426
Dividends per share					
Preferred Stock	3.75	3.75	3.75	3.75	3.75
Common Stock	.30	1.50	1.50	1.50	1.50
Book value common stock—per share	7.33	20.35	20.98	20.28	19.26
Common Stock price range					
High	11⅜	41	48⅝	70⅝	54⅞
Low	1½	9⅝	34¾	41½	26⅞
Number of common stockholders	36,554	30,174	20,211	19,045	19,196
Number of stores—beginning of year	1,189	1,208	1,168	1,116	1,095
Stores opened during year	44	77	92	83	65
Stores closed during year	81	96	52	31	44
Number of stores—end of year	1,152	1,189	1,208	1,168	1,116

quarterly results

(unaudited)

($ in thousands except per share data)

	52 weeks ended January 30, 1975			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$370,571	$436,215	$441,101	$514,065
Earnings (loss) before income taxes	($ 24,238)	($ 23,496)	($ 41,479)	($208,679)
Provision (credit) for income taxes	(11,739)	(11,409)	(20,081)	(74,237)
	(12,499)	(12,087)	(21,398)	(134,442)
Equity in net earnings of unconsolidated subsidiaries	224	1,528	1,046	288
Net earnings (loss)	($ 12,275)	($ 10,559)	($ 20,352)	($134,154)
Average number of common shares outstanding (in thousands)	13,922	13,932	13,946	13,960
Net earnings (loss) per common share (after deduction of dividends on Preferred Stock)	($ .89)	($ .76)	($1.46)	($9.63)

	Year ended January 31, 1974			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$380,139	$456,508	$443,634	$569,521
Earnings (loss) before income taxes	($ 15,791)	$ 825	($ 15,221)	$ 39,727
Provision (credit) for income taxes	(7,683)	375	(7,439)	18,036
	(8,108)	450	(7,782)	21,691
Equity in net earnings of unconsolidated subsidiaries	169	1,112	965	2,405
Net earnings (loss)	($ 7,939)	$ 1,562	($ 6,817)	$ 24,096
Average number of common shares outstanding (in thousands)	13,862	13,880	13,895	13,908
Net earnings (loss) per common share (after deduction of dividends on Preferred Stock)	($ .58)	$ .11	($ .50)	$1.73

market price and dividend information

The high and low sales price and dividends per share for common shares traded on the New York Stock Exchange were:

	Sales Price of Common Shares				Dividends Per Share	
	52 weeks ended January 30, 1975		Year ended January 31, 1974		52 weeks ended Jan. 30, 1975	Year ended Jan. 31, 1974
Quarter	High	Low	High	Low		
First	$11⅜	$6½	$41	$21⅛	$.15	$.375
Second	8⅜	4¼	24⅝	16⅞	.15	.375
Third	5⅜	2⅝	22¾	17½	None	.375
Fourth	2⅞	1½	18⅞	9⅝	None	.375

management's discussion and analysis of the summary of operations

SALES—Sales for the 52 weeks ended January 30, 1975 were $1.76 billion, a decrease of $88 million, or 4.7%, from the year ended January 31, 1974. While the Company experienced sales declines in each of its four fiscal quarters, the largest decline, $55 million, occurred in the fourth quarter. This decline of 9.7% was due primarily to the Company's planned contraction of the promotion of Grant credit sales. This contraction, the reasons for which are explained in the section entitled "Net Credit Expense (Income)", resulted in a decrease of $64 million, or 41.2%, in Grant credit sales. Cash sales, including BankAmericard, Master Charge and third-party installment account financing, all of which were introduced nationally in December, 1974, increased by $9 million, or 2.1%, during the fourth quarter.

The remainder of the sales decrease was attributable to a variety of factors, including the operation of fewer stores in each month of 1974 as compared to 1973, a serious merchandise imbalance as discussed in the letter to Stockholders, and the state of the national economy.

The 12% increase in sales for the year ended January 31, 1974 as compared to the year ended January 31, 1973, was attributable mainly to the 77 new stores opened in that year, and the full year operation of the 92 stores opened during the fiscal year ended January 31, 1973.

COST OF MERCHANDISE SOLD, BUYING AND OCCUPANCY COSTS—These costs increased by $20 million, or 1.6%, as compared to the fiscal year ended January 31, 1974, and reflected the costs associated with the sale of merchandise in order to correct merchandise imbalances. In addition to such costs, the Company experienced increases in its rental expense associated with new stores.

As a result of selling margin restrictions issued under the Phase IV Price Control Regulations of the Economic Stabilization Program, cost of merchandise sold increased in the year ended January 31, 1974, as compared to the year ended January 31, 1973. Such selling margin restrictions, which became effective in August 1973, limited selling margins by merchandise categories to those in effect for the same merchandise categories as in 1972. As a result of a planned change in merchandise mix, the Company was obliged to lower its selling margins during the second half of 1973, as it was already above the 1972 margins when the Phase IV regulations were issued.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES—There was no material difference in these expenses for the 52 weeks ended January 30, 1975. However, for the year ended January 31, 1974 as compared to the year ended January 31, 1973, such expenses increased by $64 million, or 13%. The major portion of this increase was attributable to higher employee compensation and benefits expense.

STORE CLOSING EXPENSES—The $24 million in store closing expenses resulted from the factors described in Note 9 to the financial statements.

NET CREDIT EXPENSE (INCOME)—Beginning in September, 1974, the Company found it necessary to modify the existing liberal terms upon which credit was granted to its customers and to substantially reduce the number of outstanding Grant credit cards. These steps were taken in order to bring credit receivables under control. Credit receivables were adversely affected earlier in the year when, in connection with the discontinuance of the sale of merchandise coupon books, a substantial number of Grant credit cards were issued. This large increase in the number of outstanding Grant credit cards and the liberal credit terms, coupled with the general economic decline and the resultant decrease in credit collections, caused customer receivables to increase dramatically. This increase in outstanding customer receivables placed a severe strain on the Company's financial resources and necessitated the drastic corrective actions taken in the third and fourth quarters. The Company is continuing to restructure its credit and collection procedures.

As a result of the factors mentioned above, and reflecting the change in the Company's policy as to the recognition of bad debts, as described in Note 3 to the financial statements, the Company wrote off $92 million in accounts receivable. In addition, the Company increased its allowance for doubtful accounts by $63 million, based upon analyses of agings on a contractual basis, collection and other statistical information.

Interest expense allocated to credit operations for the 52 weeks ended January 30, 1975 was $15 million greater than in the year ended January 31, 1974. This higher charge for interest was a combined result of the higher weighted average daily interest rate for short-term borrowings, 11.74% as compared to 8.55% and higher short-term borrowings of $540 million as compared to $465 million in average daily amount outstanding. Additional details can be found in Notes 3, 4, 5 and 7 to the financial statements.

Net credit expense (income) changed from income of $14 million in the year ended January 31, 1973 to expense of $6 million in the year ended January 31, 1974. The major portion ($18 million) of this variance was attributable to a higher weighted average daily interest rate for short-term borrowings of 8.55% as compared to 4.76% and higher short-term borrowings of $465 million as compared to $314 million in average daily amount outstanding.

OTHER INTEREST EXPENSE—As indicated above, average daily short-term borrowings and the average daily interest rate for such borrowings has increased dramatically over the past two years. In addition, long-term debt has increased over the same period as discussed in Note 5 to the financial statements. All interest expense not allocated to credit operations is included in other interest expense.

PROVISION (CREDIT) FOR INCOME TAXES—Income taxes have been reflected in accordance with the pretax results of operations as more fully explained in Note 10 to the financial statements.

W. T. Grant Company
and consolidated subsidiaries

($ in thousands)

	January 30, 1975	January 31, 1974*
ASSETS		
CURRENT ASSETS		
Cash—Notes 4 and 5	$ 79,642	$ 45,951
Customers' installment accounts receivable—Notes 1, 3, 4 and 5	518,387	602,305
Less:		
Allowance for doubtful accounts	79,510	16,315
Unearned credit insurance premiums	1,386	4,923
Deferred finance income	37,523	59,748
	399,968	521,319
Merchandise inventories (including merchandise in transit)—Notes 4 and 5	407,357	450,637
Other accounts receivable, refundable taxes and claims—Note 10	31,223	19,483
Prepaid expenses	6,591	7,299
TOTAL CURRENT ASSETS	924,781	1,044,689
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES—Notes 2, 4 and 5	49,764	44,251
COMMON STOCK OF W. T. GRANT COMPANY 155,400 shares, at cost, held for Deferred Contingent Compensation Plan—Note 8	2,500	2,500
PROPERTIES, FIXTURES AND IMPROVEMENTS		
Buildings	2,953	1,475
Furniture and fixtures	142,772	138,827
Improvements to leased properties	13,412	12,620
	159,137	152,922
Less allowance for depreciation and amortization	58,108	52,546
	101,029	100,376
Land	903	608
TOTAL PROPERTIES, FIXTURES AND IMPROVEMENTS	101,932	100,984
UNAMORTIZED DEBT EXPENSES AND OTHER ASSETS	3,290	2,563
	$1,082,267	$1,194,987

**Restated as described in Note 1*

See notes to financial statements

statement of financial position

($ in thousands)

	January 30, 1975	January 31, 1974*
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES		
Bank loans—Note 4	$ 600,000	
Short-term commercial notes—Note 4		$ 453,097
Current portion of long-term debt—Note 5	995	
Accounts payable for merchandise	50,067	58,192
Salaries, wages and bonuses	10,808	14,678
Other accrued expenses—Notes 9 and 10	49,095	14,172
Taxes withheld from employees	1,919	4,412
Sales and other taxes	17,322	13,429
Federal income taxes payable—Note 10	17,700	
Deferred income taxes related to installment sales—Notes 1 and 10	2,000	103,078
TOTAL CURRENT LIABILITIES	749,906	661,058
OTHER LIABILITIES		
Long-term debt—Note 5	216,341	220,336
Deferred Federal income taxes—Note 10		14,649
Deferred contingent compensation and other liabilities	2,183	4,196
TOTAL OTHER LIABILITIES	218,524	239,181
CAPITAL—Notes 1, 4, 5 and 6		
Capital Stock		
Cumulative Preferred—$100 par value:		
Authorized 250,000 shares		
Issued 74,645 shares of 3¾% series	7,465	7,465
Common—$1.25 par value:		
Authorized 22,500,000 shares		
Issued 14,879,554 shares	18,599	18,599
Paid-in capital	82,394	84,271
Amounts paid by employees under purchase contracts for Common Stock	1,520	1,638
Earnings retained for use in the business	37,674	219,471
	147,652	331,444
Less 754,824 and 808,054 shares, respectively, of treasury Common Stock, at cost	33,815	36,696
TOTAL CAPITAL	113,837	294,748
LEASES, CONTINGENCIES AND SUBSEQUENT EVENTS—Notes 3, 4, 5, 10 and 12		
	$1,082,267	$1,194,987

W. T. Grant Company and consolidated subsidiaries

statement of operations

($ in thousands)

	52 weeks ended January 30, 1975	Year ended January 31, 1974*
Sales	$1,761,952	$1,849,802
Income from concessions	4,238	3,971
	1,766,190	1,853,773
Cost of merchandise sold, buying and occupancy costs	1,303,267	1,282,945
	462,923	570,828
Selling, general and administrative expenses	540,953	540,230
Store closing expenses—Note 9	24,000	
Net credit expense—Notes 1 and 3	161,467	5,972
Other interest expense—Note 7	37,771	18,082
	764,191	564,284
	(301,268)	6,544
Other income:		
Interest earned—Note 7	1,390	1,036
Gain on retirement of long-term debt	1,986	1,960
	3,376	2,996
Earnings (loss) before income taxes and equity in net earnings of unconsolidated subsidiaries	(297,892)	9,540
Provision (credit) for Federal, state and local income taxes—Note 10		
Current	(19,439)	(6,021)
Deferred	(98,027)	9,310
	(117,466)	3,289
	(180,426)	6,251
Equity in net earnings of unconsolidated subsidiaries—Note 2	3,086	4,651
NET EARNINGS (LOSS)	($ 177,340)	$ 10,902
NET EARNINGS (LOSS) PER COMMON SHARE	($12.74)	$ .76

**Restated as described in Note 1*
See notes to financial statements

W. T. Grant Company
and consolidated subsidiaries

statement of capital

for the year ended January 31, 1974 and the 52 weeks ended January 30, 1975
($ in thousands)

	Cumulative Preferred Stock	Common Stock	Paid-in Capital	Amounts paid by employees under stock purchase contracts	Earnings retained for use in the business	Treasury Common Stock
Balance at February 1, 1973	$8,600	$18,588	$84,718	$1,429	$229,691*	($40,150)
Purchase of 4,600 shares of treasury Common Stock						(133)
Purchase and cancellation of 11,353 shares of Cumulative Preferred Stock	(1,135)		517			
Receipts from employees under stock purchase contracts				2,584		
Issuance of 73,340 shares of treasury Common Stock under Employees' Stock Purchase Plans			(1,212)	(2,375)		3,587
Conversion of 4% Convertible Subordinated Debentures into 9,356 shares of Common Stock		11	248			
Net earnings for the year					10,902	
Cash dividends:						
3¾% Cumulative Preferred Stock—Four quarterly dividends of 93¾¢ each per share					(293)	
Common Stock—Four quarterly dividends of 37½¢ each per share					(20,829)	
Balance at January 31, 1974	7,465	18,599	84,271	1,638	219,471	(36,696)
Receipts from employees under stock purchase contracts				886		
Issuance of 53,230 shares of treasury Common Stock under Employees' Stock Purchase Plans			(1,877)	(1,004)		2,881
Net loss for the year					(177,340)	
Cash dividends:						
3¾% Cumulative Preferred Stock—Four quarterly dividends of 93¾¢ each per share					(280)	
Common Stock—Two quarterly dividends of 15¢ each per share					(4,177)	
Balance at January 30, 1975	$7,465	$18,599	$82,394	$1,520	$ 37,674	($33,815)

**Restated as described in Note 1*
See notes to financial statements

W. T. Grant Company and consolidated subsidiaries
statement of changes in financial position

($ in thousands)

	52 weeks ended January 30, 1975	Year ended January 31, 1974*
Funds provided by (applied to) operations:		
Net earnings (loss)	($177,340)	$ 10,902
Less undistributed equity in net earnings of unconsolidated subsidiaries	331	3,570
	(177,671)	7,332
Other items not affecting working capital:		
Depreciation and amortization of properties	14,587	13,579
Increase (decrease) in deferred Federal income taxes—non-current	(14,649)	2,723
Decrease in deferred contingent compensation and other liabilities	(2,013)	(498)
Total funds provided by (applied to) operations	(179,746)	23,136
Other Sources of Funds:		
Notes payable to banks		100,000
Receipts from employees under stock purchase contracts	886	2,584
Common Stock issued upon conversion of 4% Debentures		259
Total Other Sources	886	102,843
Other Applications of Funds:		
Dividends to stockholders	(4,457)	(21,122)
Investment in properties, fixtures and improvements	(15,535)	(23,143)
Decrease in long-term debt	(3,995)	(6,074)
Investment in Granjewel Jewelers & Distributors, Inc.:		
Convertible Notes	(3,646)	(5,700)
Common Stock	(1,536)	
Purchase of Cumulative Preferred Stock, for cancellation		(618)
Purchase of treasury Common Stock		(133)
Conversion of 4% Convertible Subordinated Debentures		(262)
Increase in other assets—net	(727)	(642)
Total Other Applications	(29,896)	(57,694)
Working Capital Increase (Decrease)	($208,756)	$ 68,285
Current Assets Increase (Decrease)		
Cash	$ 33,691	$ 15,008
Customers' installment accounts receivable—net	(121,351)	52,737
Merchandise inventories	(43,280)	51,104
Other current assets	11,032	8,935
	(119,908)	127,784
Current Liabilities Increase (Decrease)		
Bank loans	600,000	(10,000)
Short-term commercial notes	(453,097)	73,063
Current portion of long-term debt	995	
Accounts payable for merchandise	(8,125)	(2,781)
Salaries, wages and bonuses	(3,870)	(3,349)
Other accrued expenses	34,923	3,932
Taxes withheld from employees	(2,493)	2,217
Sales and other taxes	3,893	448
Federal income taxes payable	17,700	(8,480)
Deferred income taxes related to installment sales	(101,078)	4,449
	88,848	59,499
Working Capital Increase (Decrease)	($208,756)	$ 68,285

**Restated as described in Note 1*
See notes to financial statements

summary of significant accounting policies

FISCAL YEAR

Effective January 30, 1975 the Company adopted a 52-53 week fiscal year ending the last Thursday in January. This change had no significant effect upon the results of operations for the year.

BASIS OF CONSOLIDATION

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company carries its investments in Zeller's Limited (a 50.1% owned Canadian subsidiary) and Granjewel Jewelers and Distributors, Inc. (51% owned) at cost plus equity in net earnings (loss) since acquisition. Zeller's Limited has consistently followed the policy of distributing approximately 40%-50% of current net earnings and permanently reinvesting the remainder. Accordingly, no U.S. deferred income taxes nor Canadian withholding taxes have been provided on such undistributed net earnings. No deferred income taxes have been provided on the equity in net earnings (loss) of Granjewel, as it was intended that its earnings be reinvested in the business. In the event of disposition of Zeller's no tax payment would currently be required on the difference between cost and carrying amount due to available tax loss carryforward and other tax credits.

FINANCE INCOME

Finance charges on customers' installment accounts receivable are included in income as such charges are earned computed by the sum-of-the-months' digits [effective yield] method. (See Note 1.)

DEFERRED INCOME TAXES

Gross profits on sales on the installment basis are reflected in the financial statements when the sales are made, whereas for income tax purposes such gross profits are reported as income as collections are received. Deferred taxes resulting from the difference between taxes accrued for financial statement purposes and taxes due, are provided for in the financial statements.

Depreciation as reflected in the financial statements is computed using the "straight-line" method, whereas for income tax purposes accelerated depreciation is used. The resulting difference gives rise to "Deferred Federal income taxes". Tax benefits related to the net operating loss of the Company for the 52 weeks ended January 30, 1975 have been applied against "Deferred income taxes related to installment sales" and to "Deferred Federal income taxes", as substantially all such deferred taxes would have been payable during the carryforward period allowed for net operating losses.

INVENTORIES

Merchandise inventories in stores are stated at the lower of cost or market, determined by the retail method. Inventories at distribution centers and in-transit are stated at the lower of cost (first-in, first-out) or market.

PROPERTIES

Properties, fixtures and improvements are carried on the basis of cost. The policies followed, with respect to estimated useful lives, for depreciation and amortization are: buildings and improvements are depreciated at rates of 3⅓% to 10% per annum; furniture and fixtures are depreciated at 8% per annum with the exception of small fixtures which are depreciated at 20% per annum; improvements to leased properties are amortized over the terms of the leases or the estimated useful lives of the assets, whichever is shorter; the major portion of such assets being amortized over periods ranging from 15 to 25 years.

INVESTMENT TAX CREDIT

Investment tax credits are reflected as a reduction of the provision for current income taxes (flow-through method).

PENSION COST

The Company has an Employees' Retirement Plan available to all employees. Pension cost has been determined using the projected benefit cost method with aggregate level normal cost. The Company funds all pension costs accrued.

DEFERRED CHARGES

Expenses associated with the opening of new stores are written off in the year of store opening.

Unamortized debt expenses are being amortized over the lives of the debentures by the "bonds outstanding" method, and over the lives of bank loans by the "straight-line" method.

NET EARNINGS (LOSS) PER SHARE

Net earnings (loss) per share of Common Stock (equivalent to fully diluted), after deduction of dividends on Preferred Stock, have been determined based upon the average number of common shares outstanding during each year.

Note—1 Changes in accounting policies

The Company has determined that the accounting principles described in the AICPA industry audit guide "Audits of Finance Companies", related to methods of accounting for finance income, should be applied to the Company's accounting for finance charges on its customers' installment accounts. Accordingly, in January, 1975, the Company changed its accounting principle for finance charges to include finance charges in income as such charges are earned, computed by the sum-of-the-months' digits [effective yield] method. The Company believes, and the Audit Guide states, that this method results in a more precise matching of costs with revenues. Formerly, the Company followed the policy of including in income finance charges billed to customers at date of sale. The change has been applied retroactively and, accordingly, prior year's financial statements have been restated.

In addition, in January, 1975, the Company changed its interim accounting for net credit expense from deferring such expense for the first three quarters of each fiscal year to charging such expense to income as incurred, and has applied such change retroactively. This change has no effect on annual reporting.

The approximate net effect of the aforementioned accounting changes for the fiscal years ended January 31, 1974 and January 30, 1975 and the quarters included therein are as follows:

		Net Earnings	Net Earnings Per Share
		($ in thousands except per share data) increase (decrease)	
Quarters ended: (not covered by report of independent accountants)			
	April 30, 1973	($2,196)	($.16)
	July 31, 1973	(474)	(.03)
	October 31, 1973	(2,873)	(.21)
	January 31, 1974	8,016	.57
	April 30, 1974	(5,302)	(.38)
	July 31, 1974	(6,666)	(.48)
	October 31, 1974	(8,738)	(.63)
	January 30, 1975	42,931	3.08
Fiscal Years ended:	January 31, 1974	$2,473	$.17
	January 30, 1975	22,225	1.59

Such changes reduced "Earnings retained for use in the business", "Deferred income taxes related to installment sales", and "Allowance for doubtful accounts" at February 1, 1974 by $28,990,000, $29,006,000 and $1,752,000, respectively, resulting in "Deferred finance income" at February 1, 1974, of $59,748,000.

Note—2 Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries are carried at cost plus equity in net earnings (loss) since acquisition. There is no significant difference between the underlying net equity and such carrying amounts.

Details of the investment accounts are as follows:	January 30, 1975	January 31, 1974
	($ in thousands)	
Common stock of Zeller's Limited (cost $8,893,326)	$32,670	$30,239
Common stock of Granjewel Jewelers & Distributors, Inc. (cost $3,576,240 and $2,040,000 respectively)	1,797	2,361
5½% Convertible Subordinated Debentures of Zeller's Limited ($6,060,000 Cdn.)	5,951	5,951
Convertible Notes of Granjewel Jewelers & Distributors, Inc.	9,346	5,700
	$49,764	$44,251

The Convertible Notes of Granjewel bear interest at 125% of the minimum commercial lending rate of the Morgan Guaranty Trust Company of New York.

The equity in net earnings (loss) of each subsidiary is shown below:

	52 weeks ended January 30, 1975	Year ended January 31, 1974
	($ in thousands)	
Zeller's Limited	$5,186	$4,372
Granjewel Jewelers & Distributors, Inc.	(2,100)	279
	$3,086	$4,651

Equity in net earnings of Zeller's Limited includes dividends received of $2,755,490 and $2,080,782 for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974, respectively, less applicable Federal income taxes of $999,000, in the year ended January 31, 1974, as a result of the inability of the Company to utilize available foreign tax credits due to a net operating loss incurred for Federal income tax purposes.

The following summarizes financial information for the years ended January 31, 1975 and January 31, 1974, for these unconsolidated subsidiaries:

	Zeller's Limited (Canadian $ = U.S. $)		Granjewel Jewelers & Distributors, Inc.	
	($ in thousands)			
	1975	1974	1975	1974
Assets	$163,698	$138,671	$27,000	$30,300
Liabilities	96,145	76,680	23,600	25,700
Capital	67,553	61,991	3,400	4,600
Sales	$339,922	$287,017	$46,100	$30,800
Net earnings (loss)	10,602	10,305	(4,200)	550

Because of the net loss incurred by Granjewel and difficulties in obtaining adequate financing sufficient for continued business operations and compliance with terms of loan agreements, it is not presently determinable as to whether such subsidiary will be able to continue as a going concern.

Note—3 Credit operations

The Company presently has available two types of Company operated credit plans at most locations; a revolving charge account providing for payment in full within 28 days or on terms, based upon balance, ranging up to approximately 24 months, including finance charges which generally do not exceed 1½% per month; and a traditional installment (budget) account, payment terms up to 24 months with finance charges included, ranging up to an annual percentage rate of approximately 19%.

During the 52 weeks ended January 30, 1975, the Company terminated offering its former coupon account plan, payment terms up to 24 months. In December, 1974, the Company reduced from 36 months to 24 months the maximum payment terms on its budget accounts opened after that date, and increased the minimum payment on the majority of its credit accounts to $10 per month.

A summary of the net expense of credit operations is shown below:

	52 weeks ended January 30, 1975	Year ended January 31, 1974
	($ in thousands)	
Finance income (See Note 1)	$ 87,012	$ 86,677
Expenses: Interest expense	48,308	32,965
Provision for doubtful accounts	155,691	21,198
Finance income related to uncollectible accounts	(4,127)	(1,317)
Administration	48,607	39,803
	248,479	92,649
Net credit expense	$ 161,467	$ 5,972
Credit sales	$ 402,916	$ 451,471

Interest expense is allocated to credit operations based on the average borrowing rate of W. T. Grant Financial Corporation applied to average customers' installment accounts receivable, net of allowance for doubtful accounts, unearned credit insurance premiums, deferred finance income and deferred income taxes related to installment sales.

The provision for doubtful accounts consists of net uncollectible accounts written off plus the increase in the allowance for doubtful accounts.

For the 52 weeks ended January 30 ,1975 and the year ended January 31, 1974, the Company wrote off accounts receivable based on a nine months recency of payment, or which were otherwise deemed to be uncollectible. Effective January 31, 1975, the Company changed its write-off policy on accounts receivable, to write off accounts which are nine months delinquent based on contractual payment terms. In November 1974, the Company began to provide for an allowance for doubtful accounts on a six month contractual basis and the Company continues to provide for doubtful accounts on such basis. At January 31, 1974, the Company provided for doubtful accounts in accordance with its write-off policy in effect at that time. Modified collection efforts continue subsequent to write-off, and recoveries are applied as a reduction of the provision for doubtful accounts. The Company is also in the process of restructuring its credit and collection procedures. It is not practicable to estimate the effect of such changes in policies and procedures upon the results of operations for the 52 weeks ended January 30, 1975.

Earned credit insurance premiums are reflected as a reduction of administration expenses. During 1974 the Company discontinued the sale of credit insurance.

At January 30, 1975, there were approximately 1.4 million active revolving charge accounts with an average balance of $154 and 1.1 million active budget accounts with an average balance of $268.

Class actions or purported class actions are currently pending in eight states which involve allegations that the finance and related charges under certain of the Company's credit arrangements exceeded the maximum amount permissible under, or otherwise failed to comply with, the laws regulating credit in such states and/or the Federal Truth-in-Lending Act. Some of the actions are directed specifically at the Company's sale of merchandise coupon books. Such sales have been discontinued.

In one action, the Court has handed down an adverse decision which the Company has appealed. In another action, in accordance with an order of the trial court, implementing the opinion of the state supreme court, the Company is presently crediting existing customer receivables, or refunding to customers certain finance charges previously collected under the coupon account plan. The remaining actions are in various stages of pleadings prior to trial.

The ultimate consequences of these actions are not presently determinable. However, based upon present available information, in the opinion of the Company's Management, these actions will not have a material adverse effect on the Company's financial position.

Note—4 Short-term borrowing and Inventory Security Agreement

SHORT-TERM BORROWING

The average interest rate on bank loans outstanding at January 30, 1975 was 11.55%. The average interest rate on short-term commercial notes outstanding at January 31, 1974 was approximately 9.6%, with maturities ranging from 1 to 270 days from the date of issuance.

The following relates to aggregate short-term borrowings:

	52 weeks ended January 30, 1975	Year ended January 31, 1974
	($ in thousands)	
Maximum amount outstanding at any month end	$602,905	$518,871
Average daily amount outstanding	539,880	465,204
Weighted average daily interest rate	11.74%	8.55%

At January 31, 1974 the Company had unused bank credit lines of $493,182,500 with banks, at which the Company maintained cash balances of $597,000.

During the year ended January 30, 1975 the Company ceased its borrowings in the commercial paper market and as of September 16, 1974, entered into a Loan and Guaranty Agreement with various banks providing for loans up to $600 million, bearing interest payable monthly at a rate per annum equal to 110% of the sum of ¼ of 1% plus the minimum commercial lending rate of the Morgan Guaranty Trust Company of New York, adjusted as of the first day of each calendar month for such rate in effect. The understanding is that the Company will maintain compensating balances equal to 10% of the outstanding loan, which amounted to $60 million at January 30, 1975. Such compensating balances are not restricted as to withdrawal. The unpaid principal is payable on June 2, 1975. Installment payments of $40 million and $35 million due on December 13, 1974 and January 31, 1975, respectively, have been waived by the lenders.

Under the terms of the Agreement the Company and its consolidated subsidiaries may not incur any additional debt unless it is subordinated and the proceeds are used to reduce the principal amount of the above mentioned loan; the Company may not declare or pay dividends, other than those on Preferred Stock presently outstanding, and may not purchase, redeem, acquire or retire any shares of its capital stock or any indebtedness.

In addition, the Company was required to maintain minimum consolidated working capital and consolidated net worth balances which have been waived by the lenders.

The Company also pledged as collateral A) all customer receivables arising out of the sale of goods and merchandise coupon books to retail customers, except 1) accounts arising out of the sale of goods pursuant to BankAmericard and Master Charge arrangements, or 2) accounts, contract rights or chattel paper acquired on or before December 31, 1975 for cash by a company not affiliated with the Company, substantially concurrently with the sales out of which they arise, and B) its investments in 6,399,300 shares of the common stock of Zeller's Limited and $6,060,000 Cdn. of the 5½% Convertible Subordinated Debentures of Zeller's Limited. Also, the Company or any consolidated subsidiary may not create, assume or suffer to exist any lien on any assets now owned or hereafter acquired.

As of March 31, 1975, the Company entered into a Loan Extension Agreement with twenty-seven banks to extend to March 31, 1976, loans of $540,916,978 outstanding under the Loan and Guaranty Agreement referred to above; bearing interest at the same rate per annum as determined under that agreement. Effective as of March 1, 1975, 14 of the 27 banks accounting for $498,293,000 in principal have agreed to receive interest monthly at the rate of 5% per annum, with the payment of any interest accrued through January 29, 1976, greater than that amount, deferred until January 29, 1976, (subject to possible anticipation in the event of the sale of certain assets). Under certain conditions, the number of banks and the outstanding amount of loans may be increased at any time prior to March 31, 1976.

Under the covenants of the extended Agreement restrictions as to payments and limitations on indebtedness are basically the same as provided for in the Agreement dated as of September 16, 1974. The collateral pledged under the extended Agreement is the same as pledged under the original Agreement. The Company is also required to maintain consolidated working capital of at least $100 million and consolidated net worth of at least $40 million until January 28, 1976 and $60 million thereafter. The Company or any consolidated subsidiary may not create, assume or suffer to exist any lien on any assets now owned or hereafter acquired by it, except for merchandise inventories.

INVENTORY SECURITY AGREEMENT

Pursuant to an Inventory Security Agreement, the Company will offer to eligible suppliers a primary lien on substantially all of the entire inventory in a substantial number of its retail stores and designated distribution centers; and a junior security interest in such inventories will be given to the bank lenders.

Note—5 Long-term debt

	January 30, 1975	January 31, 1974
	($ in thousands)	
4¾% Convertible Subordinated Debentures dated April 15, 1971 and due April 15, 1996	$ 92,507	$ 95,507
4¾% Sinking Fund Debentures dated January 1, 1962 and due January 1, 1987 (annual sinking fund payment of $1.5 million)	23,995	23,995
4% Convertible Subordinated Debentures dated June 1, 1965 and due June 1, 1990	834	834
Notes payable to banks (see below)	100,000	100,000
	217,336	220,336
Current portion of long-term debt	995	
	$216,341	$220,336

In July 1973, the Company borrowed $100 million from eight banks. These notes are due in eight equal quarterly installments commencing October 1, 1976, bearing interest payable quarterly at the minimum commercial lending rate of the Morgan Guaranty Trust Company of New York from October 1, 1973 to June 30, 1975 and at ¼ of 1% above that rate thereafter. The understanding is that the Company will maintain compensating balances equal to 15% of the outstanding notes payable, amounting to $15 million at January 31, 1974. Beginning in May 1974, the Company elected to pay interest at 115% of the rate specified above in lieu of maintaining such compensating balances. Effective as of March 1, 1975, these eight banks have agreed to receive interest quarterly at the rate of 5% per annum, with the payment of any interest accrued through January 29, 1976, greater than that amount, deferred until January 29, 1976, (subject to possible anticipation in the event of the sale of certain assets).

Long-term debt at January 30, 1975 matures as follows: fiscal years ending the last Thursday of January, 1976—$995,000; 1977—$26.5 million; 1978—$51.5 million; 1979—$26.5 million; 1980—$1.5 million; and thereafter the balance of $110,341,000.

As of January 30, 1975 and January 31, 1974, 29,785 shares of Common Stock of the Company were reserved for conversion of the 4% Convertible Subordinated Debentures at the conversion price of $28 per share. In addition, at January 30, 1975 and January 31, 1974, 1,267,219 and 1,308,315 shares, respectively, were reserved for conversion of the 4¾% Convertible Subordinated Debentures at the conversion price of $73 per share.

Under the terms of the various indentures, at January 30, 1975 the Company may not incur any additional unsubordinated long-term debt; and under the terms of the most restrictive of such indentures, no amount of earnings retained for use in the business was available for the declaration of cash dividends on Common Stock, the purchase of capital stock and investments in certain subsidiaries.

Pursuant to the Loan and Guaranty Agreement described in Note 4 to the financial statements, at January 30, 1975, the 4¾% Sinking Fund Debentures dated January 1, 1962 and the Notes payable to banks (see above), were secured equally and ratably with the obligations and indebtedness of the Company secured by the Collateral. As of March 31, 1975 such Sinking Fund Debentures and such Notes were secured equally and ratably under the Loan Extension Agreement. The Sinking Fund Debentures will be granted an equal participation in the primary lien on inventories pursuant to the Inventory Security Agreement.

Note—6 Capital

The 3¾% Cumulative Preferred Stock is redeemable at the Company's option in whole or in part at $100 per share, subject to restrictions on the acquisition of capital stock as described in Notes 4 and 5 to the financial statements.

The Company is subject to certain restrictions while such Preferred Stock is outstanding, including a covenant which presently precludes the Company or any subsidiary from incurring any additional long-term debt.

At January 30, 1975 and January 31, 1974, there were 207,135 and 238,165 shares, respectively, of the Company's unissued Common Stock reserved under the 1960 Employees' Stock Purchase Plan. An additional one million shares of unissued Common Stock have been reserved under the 1970 Employees' Stock Purchase Plan. Contracts for the sales of such shares, on a deferred payment basis, are made at approximate market prices at date of contracts. Shares are issued in minimum lots of five shares after completion of payments.

Note—7 Interest

Interest earned for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974 includes $1,261,820 and $777,339, respectively, on investments in debentures of unconsolidated subsidiaries.

For the 52 weeks ended January 30, 1975 and the year ended January 31, 1974, interest expense on long-term debt amounted to $17,527,553 and $11,300,900, respectively.

Other interest expense includes interest not allocated to net credit expense as described in Note 3 to the financial statements, and interest of $4,000,000 accrued to provide for assessments by the Internal Revenue Service as described in Note 10 to the financial statements.

Note—8 Deferred contingent compensation and executive bonus plans

The amount charged to operations for the Deferred Contingent Compensation Plan was $51,740 and $560,000 for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974, respectively. The Company, effective January 31, 1975, has terminated this Plan. However, such termination does not affect cash or stock allotments contingently credited prior to such termination, or any dividend credits which may hereafter arise.

The amount charged to operations for the Executive Bonus Plan, in which all executives participate, was $1,552,523 for the year ended January 31, 1974. In August 1974, the Board of Directors approved the allocation of a payment in an amount not to exceed $1,500,000 to the executive group compensation pool for the 52 weeks ended January 30, 1975. The amount charged to earnings for the 52 weeks ended January 30, 1975 was $1,410,461.

Note—9 Store closing expenses

The Company is in the process of closing in early 1975, prior to their lease expiration dates, 66 medium to large size stores which have contributed significantly to the operating loss for the 52 weeks ended January 30, 1975. Accordingly, the expenses of closing such stores ($24 million), including present values of lease commitments until expected disposition, markdowns of merchandise inventories, disposition of furniture, fixtures and improvements, severance compensation, and promotional and other expenses have been accrued in the accompanying financial statements for the 52 weeks ended January 30, 1975. In addition, the Company continually reviews each store's performance and may, at or near the lease expiration date, discontinue the operations of selected stores dependent upon future expectation. The expenses of such store closings, generally not significant, are charged to operations as incurred.

Note—10 Income taxes

The Company's Federal income tax returns for the years ended January 31, 1964 through 1971 have been examined by the Internal Revenue Service. For the years ended January 31, 1964 and 1965 the United States Court of Appeals ruled in favor of the Internal Revenue Service as to the tax treatment of gross profit under one of the Company's installment plans. Although certiorari has been denied by the Supreme Court, and a rehearing has been denied by the Tax Court, the Company is considering pursuing this issue in the courts as to those two years. In the event the Company is unsuccessful, the deficiencies, which have been provided for in the financial statements, would be approximately $6,000,000, and the interest on the deficiencies to January 30, 1975 would be approximately $4,000,000. Such interest has been provided for in the financial statements and included in "Other accrued expenses."

The Company has filed a protest to the proposed deficiencies for the years ended January 31, 1966 through 1971 but has not as yet had a hearing with the Appellate Division of the Internal Revenue Service. The primary issues, in addition to the one raised for the years 1964 and 1965, relate to finance charge income and bad debts. The Company believes that the additional evidence relating to the installment sales in 1966 through 1971 should produce a more favorable result than that in the earlier years.

The net resulting Federal income tax for the years ended January 31, 1964 through 1974 and the 52 weeks ended January 30, 1975 could vary from a net overassessment of $20,000,000 to a net deficiency of $25,000,000 and related interest expense to January 30, 1975 ranging from none to $26,000,000.

Due to the complexity of the issues involved, management is unable to determine with any degree of certainty the eventual outcome of these matters.

"Other accounts receivable, refundable taxes and claims" includes $19,700,000 of refundable Federal income taxes which may be refunded upon the filing of claims to carryback net operating losses (to years ended January 31, 1972 and 1973) and investment tax credits (to years ended January 31, 1969, 1970 and 1971). "Federal income taxes payable" ($17,700,000) reclassified from "Deferred income taxes related to installment sales" represents estimated deficiencies for prior years (including $6,000,000 applicable to the years ended January 31, 1964 and 1965).

The net operating loss of the Company for the 52 weeks ended January 30, 1975 has been applied to reduce deferred income taxes that would otherwise have become payable during the carryforward period of the net operating loss. Such deferred income taxes have been reduced by $29,006,000 as a result of the change in accounting described in Note 1.

The financial statement loss before income taxes of approximately $298,000,000 results in a net operating loss for Federal income tax purposes of approximately $160,000,000. The difference in these losses is due primarily to timing differences arising from deferred gross profit on installment sales, bad debts and store closing expenses. Based on the tax returns as filed, or to be filed, approximately $50,000,000 of the $160,000,000 will be carried back to the years ended January 31, 1972 and 1973 with the remaining $110,000,000 being available as a net operating loss carryover for Federal income tax purposes to January 31, 1980. For financial statement purposes, loss carryovers of only $16,000,000 will be available to offset future financial statement earnings.

Investment tax credit carryovers of $3,200,000 expire as follows: $1,000,000 in the 53 weeks ending January 31, 1980, $1,300,000 in the 52 weeks ending January 29, 1981, and $900,000 in the 52 weeks ending January 28, 1982.

The tax benefit rate on the financial statements for the 52 weeks ended January 30, 1975 varies from the statutory rate (48%) of the financial statement loss before income taxes principally because tax benefit has not been credited in the financial statements for loss carryovers.

State and local income taxes included in the provision for Federal, state and local income taxes amounted to:

	52 weeks ended January 30, 1975	Year ended January 31, 1974
Current	$ 260,946	$ 293,457
Deferred	(4,236,959)	(758,013)
	($3,976,013)	($ 464,556)

"Deferred income taxes related to installment sales" of $2,000,000 at January 30, 1975 represents state and local income taxes against which net operating loss carrybacks or carryovers are not available.

Note—11 Employees' retirement plan

The amounts charged to operations for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974 for the Employees' Retirement Plan were $3,648,008 and $1,247,202, respectively.

The Company's policy is to fund pension costs accrued.

The actuarially computed value of vested benefits at June 30, 1974 (the latest valuation date) exceeded the pension fund assets at market value by approximately $13,184,000; however the actuarially computed value of such fund assets exceeded vested benefits by approximately $7,600,000.

In accordance with the provisions of the Employee Retirement Income Security Act of 1974, the Company will make certain amendments to its pension plan, and may make certain changes in the actuarial determination of pension costs required as of January 1, 1976. An estimate of the effect of these changes on future pension costs and unfunded vested benefits will be available upon completion of an actuarial evaluation.

Note—12 Leases and Contingencies

Total rental expenses for all leases amounted to ($ in thousands):

	52 weeks ended January 30, 1975	Year ended January 31, 1974
Financing leases:		
Minimum rentals	$110,025	$101,237
Contingent rentals	1,894	2,300
Other leases:		
Minimum rentals	4,167	3,578
Less: Rentals from subleases	1,966	1,748
	$114,120	$105,367

Contingent rentals are based upon various percentages of sales in excess of specified minimums.

The future minimum rental commitments as of January 30, 1975 for all non-cancellable leases (as defined by ASR No. 147) are as follows, ($ in thousands), excluding the leases of the 66 stores described in Note 9 to the financial statements:

Years ending last Thursday in January	Financing Leases Real Estate	Financing Leases Equipment	Other Leases Real Estate	Less: Rental From Subleases Of Real Estate	Total
1976	$ 92,292	$9,072	$ 3,095	$1,726	$102,733
1977	89,754	9,072	3,017	1,502	100,341
1978	86,593	9,072	2,985	1,289	97,361
1979	84,245	6,972	2,975	1,157	93,035
1980	82,604	6,972	2,506	967	91,115
1981-1985	364,647	1,859	12,524	3,134	375,896
1986-1990	304,503	1,859	12,522	1,264	317,620
1991-1995	133,017	310	12,522	434	145,415
1996 and subsequent	5,981		5,635	38	11,578

The estimated net present value of the net fixed minimum rental commitments for all non-cancellable financing leases above are summarized below ($ in thousands):

	Range of Interest Rates Used	Present Value January 30, 1975	Present Value January 31, 1974
Real estate	2.53% to 11.94%	$386,778	$431,442
Less: Subleases	2.62% to 11.94%	9,355	7,610
Net real estate		377,423	423,832
Equipment	7.36% to 8.04%	28,695	34,465
		$406,118	$458,297

The present values were computed after reducing total rental commitments by estimated amounts, where applicable, of lessors' payments of taxes and insurance.

If all financing leases had been capitalized, it is estimated that the net loss for the 52 weeks ended January 30, 1975 would have been increased by approximately $2,599,000 (no tax effect); and that net earnings for the year ended January 31, 1974 would have been reduced by approximately $1,623,000. This computation assumes that the estimated present values were amortized on a straight-line basis over the terms of the leases and subleases and that interest expense (income) was accrued on the outstanding lease (sublease) obligations at the range of rates shown above. The amounts included in the computation for net amortization of leased and subleased property and net interest expense were approximately $34,602,000 and $34,629,000 in the 52 weeks ended January 30, 1975, and $36,614,000 and $36,038,000 in the year ended January 31, 1974, respectively.

The United States Department of Labor, Office of the Regional Solicitor in Philadelphia, has advised the Company that it intends to file a complaint alleging violations at fourteen of the Company's stores of the provisions of the Fair Labor Standards Act of 1938, as amended, relating to compensation of employees and record-keeping, and seeking back payments for such violations. It is the opinion of management that this litigation may be settled by a consent decree involving self-regulation and periodic reporting, and the payment of a dollar amount which would not have a material adverse effect on the Company's financial position.

accountant's report

Board of Directors and Stockholders
W. T. Grant Company
New York, N.Y.

We have examined the consolidated statements of financial position of W. T. Grant Company and consolidated subsidiaries as of January 30, 1975, and January 31, 1974, and the related consolidated statements of operations, capital and changes in financial position for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Zeller's Limited, used as the basis for recording the Company's equity in net earnings of that corporation, were examined by other independent accountants whose reports were furnished to us. Our opinion expressed herein, insofar as it relates to the amounts of net earnings included for Zeller's Limited, is based solely on the reports of the other independent accountants.

As discussed in Note 10 to the financial statements, the Company has protested certain deficiencies in consolidated Federal income taxes proposed by the Internal Revenue Service for the years ended January 31, 1964 through 1971, and is presently in litigation regarding such proposed deficiencies for the years ended January 31, 1964 and 1965. It is not practicable to estimate the additional income taxes and interest payable, if any, at this time. As discussed in Note 2 to financial statements, the continuing value of the Company's total investment in the common stock and convertible notes of Granjewel Jewelers & Distributors, Inc., a 51% owned subsidiary, may be impaired as a result of the potential inability of such subsidiary to continue as a going concern.

In our opinion, based on our examinations and the reports of other independent accountants, subject to the effects, if any, on the financial statements of the ultimate resolution of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of W. T. Grant Company and consolidated subsidiaries at January 30, 1975 and January 31, 1974, and the consolidated results of their operations and the changes in their financial position for the 52 weeks ended January 30, 1975 and the year ended January 31, 1974, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for finance income as described in Note 1 to the financial statements.

New York, N.Y.
April 18, 1975

Ernst & Ernst

W. T. Grant Company

EXECUTIVE AND BUYING OFFICES 1515 BROADWAY, TIMES SQUARE, NEW YORK, N.Y. 10036

DIRECTORS

JAMES G. KENDRICK†	*Chairman of the Board and President*
JOSEPH W. CHINN, JR.‡	*Director and Chairman—Consulting Committee, Wilmington Trust Company*
JOHN D. GRAY	*Chairman of the Board, Hart, Schaffner & Marx (manufacturer and retailer of men's and women's clothes)*
JOSEPH HINSEY†‡	*Partner, White & Case*
E. ROBERT KINNEY†	*President and Chief Operating Officer, General Mills, Inc. (diversified manufacturer of food, apparel, toys, specialty chemicals, and restaurant operator)*
JOHN J. LAPLANTE	*Personnel Vice President*
DE WITT PETERKIN, JR.†‡	*Vice Chairman of the Board, Morgan Guaranty Trust Company of New York*
CHARLES F. PHILLIPS†	*President Emeritus, Bates College*
HARRY E. PIERSON	*Executive Vice President*
CLARENCE W. SPANGLE‡	*President, Honeywell Information Systems, Inc. (manufactures, markets and distributes computers and controls)*
ASA T. SPAULDING‡	*Consultant, and former President, North Carolina Mutual Life Insurance Company*
JOHN E. SUNDMAN	*Financial Vice President and Treasurer*

†Member of Executive Committee
‡Member of Audit Committee

OFFICERS

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Chairman of the Board and President

HARRY E. PIERSON*
Executive Vice President

JOHN E. SUNDMAN*
Financial Vice President and Treasurer

JOHN F. CROWLEY*
Merchandise Vice President

ROBERT J. KELLY*
Vice President, General Counsel and Secretary

MARTIN KING*
Sales & Marketing Vice President

JOHN J. LAPLANTE*
Personnel Vice President

JOSEPH A. PARDO*
Distribution and Inventory Management Vice President

P. THOMAS PICARRO*
Store Management Vice President

HARVEY ZORFAS*
Data Processing Vice President

WILLIAM V. ALEXANDER
Food Service Vice President

ROBERT A. BROWN
Labor Relations Vice President

ROBERT R. CHAPLIN
Home Furnishings Merchandise Group Vice President

JOHN P. DANE
Northeastern Region Vice President

WILLIAM B. EDWARDS
Smallwares Merchandise Group Vice President

ROBERT L. FRADY
Southern States Region Vice President

HERBERT KAUFMAN
Softwares Merchandise Group Vice President

MICHAEL KOPENITS
Mid-Atlantic Region Vice President

CHARLES J. SEITZ
Merchandise Development Vice President

CLAYTON R. STALKER
Mid-Western Region Vice President

ARNOLD SUVAL
Fashion Merchandise Group Vice President

RICHARD M. SCARLATA
Controller

ANTHONY G. ADAMS
Assistant Treasurer

KARL J. BREYER
Assistant Secretary

JAMES C. DUNNE
Assistant Secretary

EVA M. FABREGAS
Assistant Controller

ALLAN E. LOMEN
Assistant Controller

**Member of the Management Committee*

Transfer Agent MORGAN GUARANTY TRUST COMPANY OF NEW YORK, N.Y.
Registrar BANKERS TRUST COMPANY, NEW YORK, N.Y.

W. T. Grant Company
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